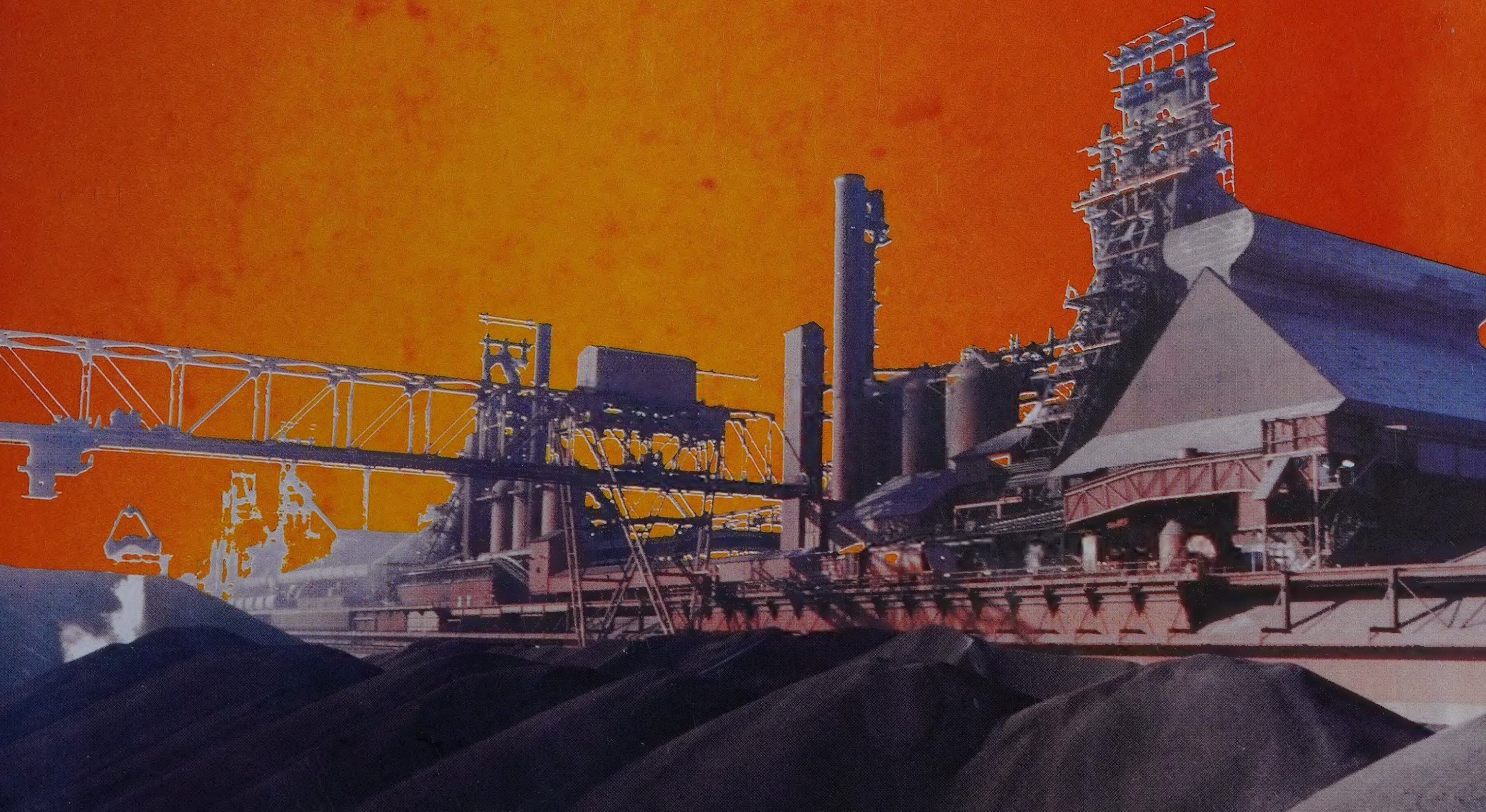
Dofasco Inc. 1981 annual report



Dofasco

As Canada's second largest fully-integrated basic steel producer, Dofasco provides over 20% of the country's steel production. Approximately 13,700 men and women are employed at its steelmaking and subsidiary operations.

Dofasco's basic products include both sheet and coils in hot and cold rolled steel, galvanized steel, tinplate, chromium coated and electrical steels, prepainted steels and steel castings. Other products include small diameter tubular steel products for the oil, gas and construction industries made at Prudential Steel, a subsidiary located in Calgary, and railway rolling stock made at National Steel Car, a subsidiary located in Hamilton.

Dofasco also owns interests in mines which provide iron ore pellets for the steel plant. These mines are the Adams and Sherman Mine in Ontario, Wabush Mines in Labrador with its pellet plant in Quebec and the Eveleth Expansion Company in Minnesota. Wholly-owned BeachviLime and its subsidiary Guelph DoLime produce lime and limestone products. Dofasco also has a minor ownership interest in the Itmann Coal Company of West Virginia.

The Company owns 50% of Baycoat, a coil coating company located in Hamilton, which produces prepainted steel.

Dofasco is a Canadian corporation with 97% of its shares held in this country.

Contents

The annual meeting of shareholders will be held at the offices of the Corporation in Hamilton, Ontario on Friday, April 30, 1982 at 12:00 o'clock noon.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétaire de la Compagnie . case postale 460, Hamilton, Ontario.

Bob Prociuk is a Turn Foreman in Dofasco's Blast Furnace area. Bob's main responsibilities focus on maintaining production and the quality of iron. It's a role requiring quick decision-making and clear communications – qualities that reflect his hobby as a licensed private pilot. "The feeling you get when flying is one of complete freedom," says Bob. "It's terrific relaxation."

Highlights

	1981	1980	Increase (Decrease)
Production of ingots and castings – net tons*	**4,258**	3,681	15.7%
Shipments of flat rolled products, semi-finished steel and steel castings – net tons*	**3,223**	2,914	10.6%
Sales*	**$1,767,509**	$1,541,914	14.6%
Net income*	**$ 169,274**	$ 122,244	38.5%
Net income available for common shareholders*†	**$ 147,070**	$ 107,304	37.1%
Net income – per common share†	**$ 9.08**	$ 6.67	36.1%
Net income – percent of sales†	**8.3%**	7.0%	18.6%
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed	**11.3%**	9.5%	18.9%
Net income – percent of average common shareholders' equity†	**18.5%**	15.2%	21.7%
Dividends declared – total*	**$ 62,703**	$ 53,961	16.2%
Dividends declared – per common share	**$ 2.50**	$ 2.42½	3.1%
– per Class A preferred share	**$ 4.75**	$ 4.75	—
– per Class B, Series 1, 2 and 3 preferred share	**$ 2.629**	$ 2.108	24.7%
– per Class B, $2.35 preferred share‡	**$ 2.35**	$ .58¾	300.0%
Capital expenditures* – manufacturing	**$ 238,259**	$ 176,848	34.7%
– mines and quarries	**$ 10,985**	$ 8,867	23.9%
Depreciation*	**$ 74,003**	$ 65,634	12.8%
Average number of employees	**13,700**	14,100	(2.8%)
Number of holders of common shares	**13,451**	13,719	(2.0%)

*in thousands
†after preferred dividends
‡issued October, 1980

Stock market information

Class A convertible common shares

Year	High	Low	Shares traded	Dividends declared
1981	$49½	$37½	1,686,065	$2.50
1980	$43½	$30½	2,652,947	$2.42½
1979	$36¼	$30½	2,309,750	$2.10
1978	$32	$22	2,282,906	$1.65¾
1977	$27	$21	1,325,918	$1.55

Valuation day (December 22, 1971) share prices: Common $25.00; Class A preferred $74.00.

Iain MacLaren is a Senior Buyer for Dofasco. His spare hours, however, are devoted to building and operating authentic working models of steam engines and locomotives; many of them chug along the 195 feet of railroad track in his yard, carrying neighbourhood children on rides. "Yes, there is a lot of work involved in building these models," Iain reports. "But anything worthwhile requires spending some time and energy."

President's message

Dofasco had a very good year in 1981. Consolidated sales of $1.77 billion were the highest in our history. Net income increased to $169 million from $122 million in 1980 and $137 million in 1979. Although these results appear to show reasonable growth over 1979, our previous best year, the increase is less than the rate of inflation over this period.

Our steel plant performed at or near capacity throughout 1981 with new records established in many of our operations. During the first three quarters of the year, our order books were full and we had to allocate shipments of our major products to existing customers.

Demand for some products declined during the fourth quarter. This was primarily the result of the worsening economic climate in both Canada and the United States. However, there was sufficient demand to maintain good levels of production and shipments through to year-end.

The performance of our subsidiaries was mixed and they contributed a slightly smaller share to Dofasco's consolidated results in 1981 than in 1980.

Outlook

In January and February of 1982 we had reasonably full order books for most flat rolled products. This was due in part to a carry-over of demand resulting from a strike in the industry during the latter half of 1981. However, orders from most of our domestic customers have been decreasing. We have been actively seeking business in the highly competitive export market to help offset the weakened domestic demand for steel.

Higher manufacturing costs, which forced us to raise prices last September, are affecting our international competitiveness. Also the lower level of some European currencies compared to the Canadian dollar will impair our ability and that of our domestic customers to compete against foreign competition both at home and abroad.

While we hope to maintain reasonably good operating rates, we do not see any significant improvement in general economic conditions before midyear. Beyond that point, there may be some strengthening in the economy, but at this time the future remains uncertain.

National Steel Car continues to operate at low levels with little improvement anticipated through the year. The market for Prudential's products has weakened somewhat but the plant is expected to operate at reasonably good levels throughout 1982.

Expansion
The steel industry is capital intensive and requires lead times of up to ten years from the first planning stages until the start-up of a new facility. Although Canada is currently in a period of economic downturn, we remain confident in the long term growth of domestic markets for steel. We have been involved in an ambitious expansion program over the past decade. During these years, Dofasco's steel production has increased by over 50% and total employment by more than 40%. Our capital expenditures for expansion have been in the order of $1 billion. Major facilities brought on-stream in this period include new coke oven batteries, a second basic oxygen steelmaking plant, a new tandem cold mill and a fourth galvanizing line. We are proceeding as scheduled with the construction of a second hot strip rolling mill and have announced plans for the addition of a fourth pickling line.

Government and the Economy
We regard ongoing communication with all levels of government as an integral part of conducting business in a responsible and responsive manner. For example, in 1981, we hosted a seminar in conjunction with the Niagara Institute. This seminar involved senior personnel from the federal and provincial governments and was designed to help provide understanding of private sector organization, planning and decision-making.

The Federal Government issued a discussion paper last April containing proposals to amend Canada's competition law. If enacted, some of these proposals could inhibit desirable mergers, penalize size, make business planning more difficult and in some instances actually discourage competition. In our view any proposals for change must be appropriate to the increasingly competitive domestic and international markets. We expressed these views in a detailed submission and in meetings with senior government officials.

Much has been written about the November 1981 Federal Budget and its impact on the individual, the investor and business. We believe that basic changes in tax policy should not be implemented through a budget without first subjecting such changes to broad public discussion and debate. The tradition of confidentiality surrounding the preparation of a budget does not normally permit such participation. In our view, the advance publication of discussion papers would provide an effective means of obtaining the widest possible analysis of proposed policy changes before specific tax measures are implemented in a budget.

Management Changes
William J. Stewart, Vice President – Product Quality and Development, retired in February 1982. Bill joined Dofasco 40 years ago and held a number of senior positions with the Company prior to his appointment as a Vice President in 1969. Over the years, Bill made a significant contribution to the success of Dofasco.

In March 1981, William L. Wallace was appointed Vice President – Operations. Bill began his career with Dofasco in 1956 and held the position of Vice President and Works Manager prior to his latest appointment.

In May, William P. Tinsley was appointed Vice President – Personnel. Bill was previously Director of Personnel and has worked in a number of senior capacities since joining the Company in 1947.

Lawrence V. Walsh was appointed to the position of Works Manager in April 1981. Larry has been with Dofasco for 15 years and was formerly Manager, Flat Rolled Production.

In October, John W. Craven was appointed Manager, Product Quality. John has been with the Company for 31 years and was Chief Metallurgist prior to his latest appointment.

At National Steel Car, Thomas F. Rahilly Jr., who had been Chairman and Chief Executive Officer, retired at the end of 1981. Tom had served in several senior positions during his nineteen years with that company. His sound business knowledge will be missed by his associates both at National and in the railway industry. Richard W. Cooke is now President and Chief Executive Officer. Rich was formerly Vice President – Finance and has been with National since 1956.

On behalf of the Board of Directors, I thank our customers and shareholders for their continued support. I extend special congratulations to all our employees for their outstanding performance during 1981. Through their efforts many new records were established.

F. H. Sherman
President

Hamilton, Ontario
March 12, 1982

Operations

Production
In 1981 we established a new record, producing 4.2 million net tons of ingots. While the hot mill operated at a record level, strong demand for flat rolled products required that we purchase additional hot rolled steel. Also, some of our excess ingots were hot rolled at outside facilities. This allowed our pickle lines and cold mills to produce at record rates. Production of castings at our foundry dropped substantially from last year's level due to poor market conditions during the second half of the year.

Major maintenance projects during the year included the scheduled relining of two blast furnaces. This had a minimal impact on our overall production since we achieved record iron production rates from operating blast furnaces. As well, rolling operations were not seriously affected since ingots had been placed in inventory in anticipation of the relines. All our blast furnaces have been upgraded and relined within the past 20 months and should be able to operate without interruption until late 1984.

Production at National Steel Car in 1981 declined to 2,542 rail cars, down from 4,100 produced in 1980. However, Prudential, BeachviLime and Guelph DoLime all operated at record levels throughout 1981.

New facilities
The new No. 4 Galvanizing Line, which increased Dofasco's zinc coating capacity by 35% to 840,000 tons per year, commenced operation in July. After a relatively smooth start-up the line ran at capacity for the balance of the year.

Construction of the No. 2 Hot Strip Mill, our largest single project to date, is progressing well. The main structure is complete and the majority of the housings for the primary and finishing mill stands are now in place. Start-up of the new $450 million mill is expected early in 1983. It will have an initial annual capacity of 1.2 million ingot tons and will be capable of future expansion in stages to 4.5 million ingot tons at relatively modest additional costs.

In July of 1981 the Board of Directors approved the addition of a fourth pickling line. Final design engineering and cost estimates are now being prepared.

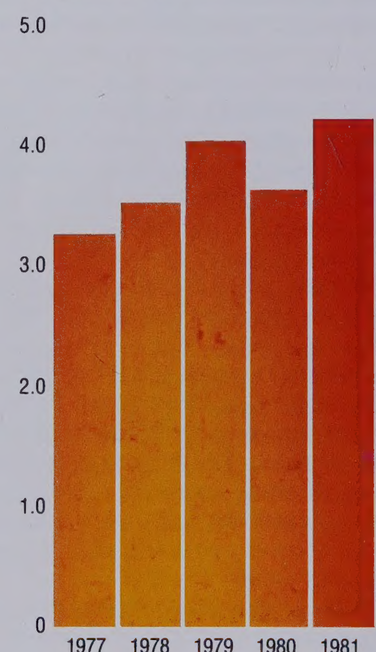
The No. 1 Galvanizing Line will be converted at the end of 1982 to produce Galvalume, a new zinc-aluminum coated flat rolled steel for construction and other applications. Dofasco has obtained an exclusive license in Canada to produce this product.

Raw materials
During the year Dofasco used over 5 million net tons of iron ore, obtained primarily from our ownership interests in iron ore mines and from existing inventories. Based on current production rates, our mines have proven reserves to support their operations into the next century.

Coking coal consumption in 1981 was 2 million net tons, of which 56% was obtained under term contracts, 9% from our ownership interest in Itmann Coal and the balance from inventory and annual purchases. Coking coal requirements for 1982 are expected to be nearly 2.2 million net tons which will be obtained from traditional sources.

BeachviLime and Guelph DoLime supplied almost all of our lime and limestone requirements.

Ingot and castings production
In millions of net tons



Debbie Laurin is a Crane Operator in Dofasco's Cold Rolling Operations. Her responsibilities after work are just as important, but of a quite different nature. As a Children's Aid Society volunteer, Debbie works with young people in the community. "Sometimes we just get together for an hour of skating," Debbie says. "It's not just the amount of time we spend . . . it's the friendship that develops."

Markets

Performance
Shipments in 1981 increased to a record 2.96 million net tons of flat rolled products and 233,000 tons of semi-finished steel. This, combined with higher selling prices which were necessary to offset significantly increased costs, resulted in consolidated sales of $1,768 million, the highest in our history.

During the first three quarters demand for all our products was at very high levels. The fourth quarter showed some decline in most markets, particularly in the automotive, tubular products, agricultural implements and appliance industries.

Shipments of steel castings from Dofasco's foundry and railway cars from National Steel Car were down significantly from 1980 due to reduced demand from the railroad sector. However, Prudential Steel had an excellent year with record sales. Its shipments of oil country tubular products, line pipe and hollow structural steel remained high.

Outlook
The Canadian economic outlook is poorer than it has been in many years. Orders for flat rolled steel declined in the fourth quarter of 1981 and remain below satisfactory levels.

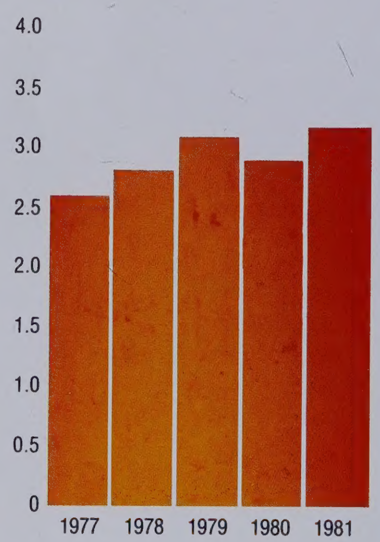
While the depressed economy has been a major factor in reduced booking levels for some products for delivery in the first quarter of 1982, demand for tinplate, galvanized and cold rolled steel was reasonably good until February. However, hot rolled shipments have been down significantly due primarily to continued weakness in the automotive sector.

Imports of flat rolled steel into Canada during 1981, exclusive of tonnage brought in by major steel mills for further processing, amounted to 1.35 million tons, up 120% over 1980. Much of this material entered the country when a significant part of the domestic production was temporarily interrupted due to a strike in the industry. We believe the amounts of imported steel remaining in customer inventories are still relatively high and this is another factor reducing demand for domestic flat rolled steel.

National Steel Car has been operating at reduced levels during the first quarter. Based on its current order position, no improvement is expected during the first half of 1982 and the level of operation during the balance of the year will depend upon the receipt of new orders. Prudential Steel, which is expanding its pipe and hollow structural facilities, expects to operate at reasonably good levels throughout 1982, although demand has weakened somewhat in recent months.

To sum up, the sales outlook for flat rolled products during the first half of 1982 is not good. We are hopeful that economic conditions will improve and provide some strengthening of demand later in the year. Lower interest rates and greater confidence in our economy could lead to increased consumer and business spending. This in turn would improve demand for our products as the year progresses.

Shipments of flat rolled products, semi-finished steel and steel castings
In millions of net tons



Paul Weiler is totally serious about his work at Dofasco. He has to be; as a Railroad Inspector his responsibilities include inspecting rail transportation equipment operating within the plant grounds. On Tiger-Cat game days, however, the fun side of Paul emerges when he becomes "Pigskin Pete," leading Hamilton football fans in the famous Oskie-Wee-Wee Tiger-Cat cheer.

Technology

Dofasco's productivity and profitability have been enhanced through innovation and the use of the best available technology throughout our operations. An ongoing program to improve the yields from our No. 1 Steelmaking Shop has provided significant productivity increases through the introduction of improvements in the quality of raw materials, operating practices and basic oxygen furnace equipment.

The performance of our cold mills has also been upgraded through the installation of Dofasco-designed test equipment on roll grinders. This new equipment has drawn considerable interest from other steel plants. Dofasco has sold rights to use the technology to companies in the United States and Europe.

The research and production departments have been working together to redesign our batch annealing equipment. The modified equipment now being tested is expected to save energy and permit shorter process cycle times. The resulting capacity increase could postpone the need to purchase additional batch annealing facilities.

After extensive testing and development, Dofasco has introduced a paintable galvanized steel named Ultracoat. This product is now being used in several automotive components and has been selected by two North American automakers for building prototype vehicles with enhanced corrosion resistance.

The Company's transportation products development group has continued to emphasize the development of undercarriages or "trucks" for passenger rail vehicles. Over the years, this team, which also provides field service and customer support for trucks built by Dofasco, has produced a number of innovative designs for specific applications.

Dofasco's product development engineers are investigating the efficient use of sheet steel in building components such as cold formed I-beams, as well as thermal and load bearing steel studs.

Peter Cherubini is in the midst of a Dofasco four-year apprenticeship course, training to become a machinist in Central Shops. His love for things mechanical extends to his leisure hours as well, when he creates finely-crafted items such as clocks and cedar chests. "I design most of the things I build," Peter comments, "and I'm adding to my tool collection all the time, looking for new ways to do the work better."

Employees

Throughout 1981, our apprenticeship training program, introduced during the 1950's, continued to provide nearly all of the Company's skilled trades requirements. During the year 168 apprentices completed four-year programs covering skills training as electricians, millwrights, pipefitters, mechanics, masons and instrumentation specialists. Since 1970, more than 900 trades people have successfully completed our apprenticeship programs and nearly all have remained at Dofasco.

The Medical Department and the Occupational Environment Division have continued to develop comprehensive health and safety programs and facilities for our employees. The professional expertise in these specialized areas provides general health care and systematic monitoring of the work environment.

During 1981, we expanded our safety and occupational hygiene programs by introducing a new training course for supervisory people throughout the plant. The course involves a week of intensive training using a case study format and brings together supervisors from diverse areas of the plant. In this way, our people gain an opportunity to discuss and share experiences from a variety of work environments.

Dofasco's employee suggestion system, started in 1936, has contributed significantly to improvements in our operations. Over the past ten years, awards of more than $2.25 million have been paid to employees whose suggestions have been adopted. In 1981, more than 4,700 suggestions were submitted and awards totalling more than $354,000 were paid.

Dofasco's recreation program for employees and their families has been in operation since the early 1940's. This year about 6,500 people participated in more than 40 activities. An arena complex, the newest addition to our 100-acre recreation park, was completed late in 1981. The complex provides two NHL size ice surfaces for Dofasco's minor hockey, employee hockey, broomball, figure skating and pleasure skating activities. The facility also contains change rooms, offices and meeting rooms for other recreation club programs.

Over the 43 years since the introduction of profit sharing at Dofasco, participation in the program has grown dramatically. In 1981, each of the more than 9,100 fund members was allocated $2,625 from steelmaking profits,

In 1981, nearly all of our employees again have given generously to the community through the Dofasco Employees' Charity Chest. Contributions were up 15% over 1980 to $678,000. A large portion of these contributions went to the United Way and its 58 member agencies.

Involvement in a great many community activities continues to be a personal pursuit for many Dofasco people. Some contribute their professional expertise assisting in the management and direction of a wide range of community, social service and recreational organizations. Others devote time to fund raising or helping those in need of personal assistance through such organizations as Big Brothers and Big Sisters, or through work with the aged and handicapped.

Allan Lundrigan has been a welder in Dofasco's Central Shops area for the past 11 years. His job involves repairing the many types of materials transportation containers used throughout the plant. Over the past five years Allan has spent many of his evenings working with young children as a Boy Scout, Beaver Leader. The reason . . . Allan puts it simply, "I enjoy working with kids. We all get a kick out of being together doing crafts and having fun."

Financial review

Consolidated net income in 1981 was a record $169.3 million, or $9.08 per common share after deducting preferred dividends. Return on average capital employed and return on shareholders' equity were 11.3% and 18.5% respectively. These returns were higher than those of 1980 but slightly lower than 1979's results.

Earnings from the steel plant improved substantially in 1981 because of record shipments and better profit margins. Good domestic demand eliminated the need to seek less profitable export orders as was the case in 1980. Price increases during the year helped offset significant increases in employment and other manufacturing costs.

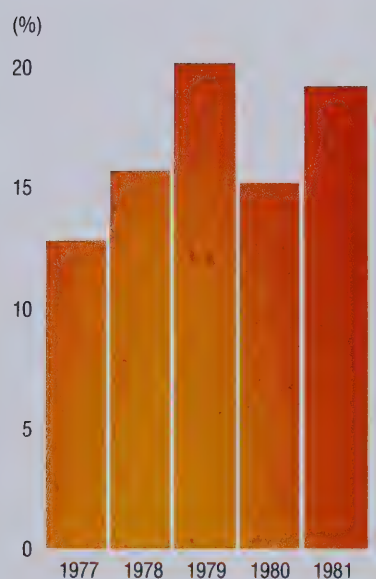
Earnings from Prudential Steel, BeachviLime and Baycoat increased in 1981 but National Steel Car's net income declined significantly.

Dofasco spent $249 million for expansion in its steel operations, mines and subsidiaries during 1981. The Company has committed to an additional $402 million in capital spending to complete its authorized projects. Much of our expansion has been financed by funds generated internally. For example, cash flow from operations in 1981 amounted to $303 million and expenditures on new facilities were $249 million. We also repaid $20 million of long term debt and $62 million was paid in dividends to common and preferred shareholders. Dividends declared per common share in 1981 were $2.50 as compared to $2.42½ in 1980.

In the fall of 1981, Dofasco purchased a 10% interest in Aberford Resources Limited for $5 million. Located in Calgary, Aberford is an oil and gas exploration and development company.

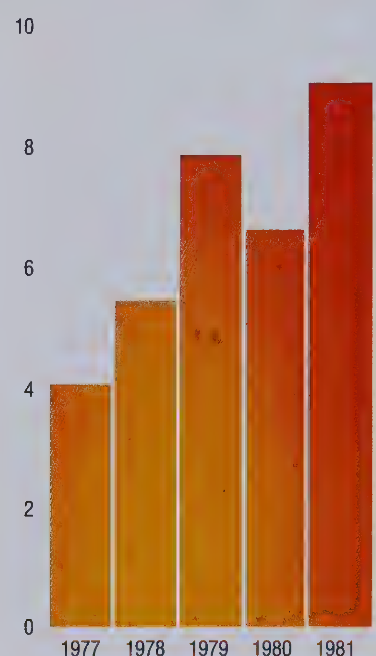
Dofasco's expansion plans have been based upon longstanding tax laws and regulations. Unfortunately, the November 1981 Federal Budget introduced substantial changes to resource tax allowances which will adversely affect all integrated steel companies. These new measures, together with changes to capital cost allowance rules affecting all manufacturers, would, if enacted, reduce our expected cash flows over the coming years. This would make it more difficult for us to generate the funds required for the capital investments needed to meet anticipated Canadian steel requirements and to remain competitive on an international scale.

Return on common shareholders' equity*



*after preferred dividends

Net income
Dollars per common share*



*after preferred dividends

Consolidated statement of income and retained earnings

for year ended December 31, 1981 (with comparative figures for 1980)

	$000's 1981	1980
Income		
Sales	**$1,767,509**	$1,541,914
Cost of sales (excluding the following items)	**1,407,802**	1,257,306
Depreciation and amortization	**74,003**	65,634
Employees' profit sharing (note 12)	**22,884**	14,705
Interest on long term debt	**33,721**	32,339
	1,538,410	1,369,984
Income from operations	**229,099**	171,930
Income from investments	**39,675**	21,914
Income before income taxes	**268,774**	193,844
Income taxes	**99,500**	71,600
Net income for year	**$ 169,274**	$ 122,244
Retained earnings		
Balance at beginning of year	**$ 636,069**	$ 568,754
Add:		
Net income for year	**169,274**	122,244
Discount on preferred shares purchased for cancellation	**551**	139
	805,894	691,137
Deduct:		
Dividends declared –		
Preferred shares	**22,204**	14,940
Common shares (including stock dividends with a cash equivalent, 1981 – $1,103,000, 1980 – $2,430,000)	**40,499**	39,021
Cost of issuing Class B, $2.35 preferred shares less related taxes	**—**	1,107
	62,703	55,068
Balance at end of year	**$ 743,191**	$ 636,069
Earnings and dividends		
Net income for year (as above)	**$ 169,274**	$ 122,244
Deduct preferred dividends – Class A preferred	**863**	884
– Class B preferred	**21,341**	14,056
	22,204	14,940
Net income available for common shareholders	**$ 147,070**	$ 107,304
Net income per common share (after preferred dividends) (note 9)		
Basic	**$ 9.08**	$ 6.67
Fully diluted	**$ 8.74**	$ 6.42
Dividends declared per common share (including stock dividends having a substantially equivalent value)	**$ 2.50**	$ 2.425

See accompanying notes to consolidated financial statements.

Consolidated statement of financial position

December 31, 1981 (with comparative figures at December 31, 1980)

	$000's	
	1981	1980
Current assets:		
Cash and short term investments at cost and accrued interest	**$ 123,955**	$ 202,857
Accounts receivable	**223,873**	209,519
Inventories (note 3)	**513,164**	426,269
	860,992	838,645
Current liabilities:		
Accounts payable and accrued charges	**207,171**	177,328
Amounts payable for employees' profit sharing	**22,884**	14,705
Income and other taxes payable	**44,877**	30,021
Dividends payable	**16,081**	13,929
Current requirements on long term debt (note 6)	**2,262**	2,592
	293,275	238,575
Working capital (note 2)	**567,717**	600,070
Fixed assets, less accumulated depreciation and amortization (note 4)	**1,177,291**	1,002,050
Investments	**9,202**	4,435
Unamortized debenture discount and issue expense	**4,069**	4,599
Capital employed	**1,758,279**	1,611,154
Deduct:		
Long term liabilities (note 6)	**372,760**	371,291
Income tax allocations relating to future years	**308,800**	271,200
	681,560	642,491
Shareholders' equity	**$1,076,719**	$ 968,663
Represented by:		
Preferred shares (note 7)	**$ 226,717**	$ 228,492
Common shares (note 8)	**106,542**	103,505
Stock dividend distributable	**269**	597
Retained earnings	**743,191**	636,069
	$1,076,719	$ 968,663

On behalf of the Board:

F.H. Sherman Director

J.P. Gordon Director

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position

for year ended December 31, 1981 (with comparative figures for 1980)

	$000's 1981	$000's 1980
Source of funds:		
Operations*	**$ 302,665**	$ 197,902
New financings less related costs:		
Debentures	—	58,620
Preferred shares	—	58,893
Common shares issued	**1,605**	2,550
	304,270	317,965
Application of funds:		
New facilities and equipment (after deducting investment tax credits, 1981 – $17,569,000, 1980 – $12,565,000) –		
Manufacturing	**238,259**	176,848
Mines and quarries	**10,985**	8,867
Increase (decrease) in investments (net)	**4,767**	(842)
Reduction in long term debt	**19,789**	7,787
Preferred shares purchased for cancellation	**1,223**	166
Dividends to shareholders –		
Preferred shares	**22,204**	14,940
Common shares	**39,396**	36,591
	336,623	244,357
INCREASE (DECREASE) IN WORKING CAPITAL	**(32,353)**	73,608
WORKING CAPITAL AT BEGINNING OF YEAR	**600,070**	526,462
WORKING CAPITAL AT END OF YEAR (note 2)	**$ 567,717**	$ 600,070
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL:		
CURRENT ASSETS:		
Cash and short term investments	**$ (78,902)**	$ 30,681
Accounts receivable	**14,354**	34,992
Inventories	**86,895**	3,876
	22,347	69,549
LESS CURRENT LIABILITIES	**54,700**	(4,059)
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (32,353)**	$ 73,608

*Funds from operations consist of net income for the year before deducting the following items which did not involve an outlay of funds: income tax allocations relating to future years (1981 – $37,600,000, 1980 – $24,500,000), accrued liability for relining blast furnaces beyond one year, depreciation, amortization and other items.

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

December 31, 1981

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles consistently applied. They are based on information available to January 29, 1982 and are within the framework of the accounting policies summarized below:

(1) Accounting policies

(a) Basis of consolidation –

The consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries (National Steel Car Limited, Prudential Steel Ltd. and BeachviLime Limited), as well as the Corporation's proportionate share of the assets, liabilities and results of operations of its joint venture activities (Sherman Mine, Wabush Mines, Eveleth Expansion Company and Baycoat Limited).

(b) Translation of foreign currencies –

Foreign currency balances are translated into Canadian dollars at year-end rates of exchange for working capital items. Long term assets and liabilities are translated using historical rates. Actual exchange rates in effect during the year are used for all revenue and expense items except depreciation and amortization which are translated at historical rates. Any resulting translation gains or losses are reflected in income.

(c) Inventories –

Inventories of materials, supplies, semi-finished and finished products are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination or, for certain raw materials, by aerial survey.

(d) Fixed assets and related investment tax credits –

Fixed assets are recorded at their historical cost which includes the cost of installation. Investment tax credits based on fixed asset expenditures are recorded as a reduction of the cost of fixed assets.

Production stripping at mines and quarries is expensed as incurred. However, the initial costs of bringing a mineral property into production are capitalized as part of the cost of the property.

Depreciation is computed generally on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2.5 to 5%
Equipment	6 to 7.5%
Automotive	20 to 25%
Mine and quarry facilities	4.5 to 5%

(e) Repairs and maintenance costs –

Repairs and maintenance costs are expensed as incurred except for the estimated cost of relining blast furnaces which is accrued over the period between relines.

(f) Income taxes –

The provision for income taxes is reduced by statutory deductions with respect to iron production and processing and the 3% inventory allowance. Mining taxes are calculated on the value of mine production and are included with income tax expense.

Income tax regulations permit the Corporation to deduct certain costs (principally depreciation) at a more rapid rate than is reflected in its accounts. The tax effect of these timing differences is recognized in the accounts as "Income tax allocations relating to future years".

(2) Accounting change

During the year, the Corporation changed the method of accounting for costs of relining blast furnaces. The portion of the accrual that relates to periods beyond one year is now reflected in the accounts as a long term liability. This was previously included in current liabilities. The comparative figures have been restated to conform with this presentation.

This change has no effect on earnings but has increased reported working capital by $14,260,000 at December 31, 1981 ($1,285,000 at December 31, 1980 and $10,476,000 at January 1, 1980). These amounts are not considered material in relation to the Corporation's working capital.

(3) Inventories

	$000's	
	1981	1980
Materials and supplies	$ 272,732	$ 257,742
Semi-finished and finished products	240,432	168,527
	$ 513,164	$ 426,269

(4) Fixed assets

	$000's	
	1981	1980
Manufacturing facilities and equipment	$1,333,589	$1,221,688
Mine and quarry facilities	246,934	238,124
	1,580,523	1,459,812
Less accumulated depreciation and amortization	701,113	645,776
	879,410	814,036
Construction in progress	297,881	188,014
	$1,177,291	$1,002,050

(5) Joint ventures

The Corporation receives a pro rata share of iron ore produced by three joint ventures in return for paying its proportionate share of costs. The expenses incurred by the joint ventures are included in the cost of materials produced and ultimately are reflected as cost of sales when finished steel products are sold.

The fourth joint venture is Baycoat Limited, a coil coating operation, in which the Corporation has a 50% interest. The Corporation reflects its share of revenues and expenses of this joint venture in the statement of income.

The Corporation's share of the assets and liabilities of these joint ventures (included in the statement of financial position categories to which they relate) is as follows:

	$000's	
	1981	1980
Working capital	$ 16,846	$ 21,728
Fixed assets	98,042	101,948
Other assets	3,348	3,584
	118,236	127,260
Long term debt and income tax allocations relating to future years	31,279	33,345
Net investment	$ 86,957	$ 93,915

(6) Long term liabilities

	$000's	
	1981	1980
Debt		
Sinking fund debentures –		
6½% due May 15, 1987	$ 19,670	$ 21,212
9% due February 1, 1991	35,519	37,274
10% due June 1, 1994	38,556	40,485
10⅞% due May 15, 1995	49,236	51,590
10⅜% due March 15, 1996	51,877	54,639
9⅜% due February 15, 1997	72,233	75,000
13½% due November 1, 2000	53,302	58,050
Eveleth Expansion Company first mortgage bonds (proportionate share) –		
9½% due 1995 (U.S. $24,640,000)	25,093	26,832
10% due 1995 (U.S. $6,093,000)	6,006	6,435
Baycoat Limited first mortgage (proportionate share) –		
12% due July 1, 1983	187	281
Outstanding at December 31	351,679	371,798
Less current requirements	2,262	2,592
	349,417	369,206
Accrued liability for relining blast furnaces beyond one year	23,343	2,085
	$372,760	$371,291

Requirements for repayment of long term debt within the next five years are as follows:
1982 – $2,262,000; 1983 – $2,411,000;
1984 – $12,741,000; 1985 – $16,720,000;
1986 – $16,720,000.

The Corporation has revolving bank credit available until December 31, 1991 in the amount of $150,000,000 in Canadian funds plus an additional $50,000,000 in either Canadian or U.S. funds. Interest is at the rate of ⅜ of 1% above the prime commercial rate. During 1981 none of the revolving bank credit was used.

If the Eveleth Expansion Company first mortgage bonds were translated into Canadian dollars at the year-end rate of exchange, the long term portion of this debt, outstanding at December 31, 1981, would increase by $4,901,000. This is not necessarily indicative of the amount which will be repaid when these obligations are retired.

Notes (continued)

(7) Preferred shares

Authorized – preferred shares issuable in series:
Class A preferred shares – 500,000
Class B preferred shares – unlimited
Class C preferred shares – unlimited

Issued less redeemed:

	1981		1980
	Shares	$000's	$000's
Class A preferred shares 4¾% cumulative redeemable preferred shares, Series A	179,169	$ 17,917	$ 18,492
Class B preferred shares Series 1, 2 and 3, having a variable dividend rate of 1¼% plus ½ of the average prime bank rate	6,000,000	150,000	150,000
$2.35 cumulative redeemable preferred shares, 1980 series	2,352,000	58,800	60,000
		$226,717	$228,492

Class A preferred shares –

The Corporation is in compliance with its obligation to retire up to 2% of the outstanding preferred shares per year. To December 31, 1981, an aggregate of 70,831 shares has been purchased for cancellation (including 5,747 during 1981 for $238,000).

Class B preferred shares –

Series 1, 2 and 3 –

The Corporation must offer to purchase the Series 1, 2 and 3 shares at $25 plus accrued dividends on their respective initial retraction dates of July 15, 1984, 1985 and 1986 and thereafter on the fifth and tenth anniversary of such dates.

These shares may be redeemed at $25.50 per share to July 14, 1982, $25.25 per share from July 15, 1982 to July 14, 1983 and at $25 per share thereafter or purchased for cancellation at not more than current redemption prices. During 1981, no shares were purchased for cancellation.

$2.35 cumulative redeemable preferred shares, 1980 series –

The Corporation is in compliance with the terms of its obligation to purchase up to 12,000 shares per quarter in the years 1981 to 1983 inclusive and up to 24,000 shares per quarter thereafter, at a price not to exceed $25 per share. To December 31, 1981, 48,000 shares have been purchased for cancellation for $985,000. These preferred shares are redeemable by the Corporation after October 15, 1985 at $25 per share plus accrued and unpaid dividends.

(8) Common shares

Authorized – an unlimited number of interconvertible Class A and Class B common shares

Issued – 15,794,692 Class A
– 441,933 Class B
16,236,625

The Class A shares and Class B shares are convertible on a share-for-share basis into each other and rank equally in all respects. Dividends on the Class A shares are paid in cash. Dividends on the Class B shares are currently being paid in the form of additional Class B shares. Such dividends have a value substantially equivalent to the cash value of dividends paid on the Class A shares. During the year an aggregate of 32,855 Class B shares was issued in payment of such dividends.

The employee stock option plan, which expires in 1984, authorizes the directors to grant options to certain employees of the Corporation to purchase up to a total of 630,000 of the unissued Class A shares including 150,000 authorized in 1981. The number of shares covered by each option varies with changes in the optionees' remuneration and therefore cannot be determined until the last year of its term. During the year 61,160 Class A shares were issued under the plan for $1,601,000. At December 31, 1981, the following options to purchase a total of 164,526 Class A shares were outstanding:

	Held by	
Option Price per share	Directors and Officers	Other Employees
$25.50	59,354	54,800
$28.125	27,280	14,308
$36.45	—	1,040
$41.175	—	7,744

No options are granted to directors who are not full-time employees of the Corporation.

On November 28, 1980, 960,000 common share purchase warrants were issued and as of December 31, 1981, 96 warrants had been exercised (nil in 1980). Each warrant entitles the holder to purchase, on or before October 15, 1985, one Class A share at a price of $45.50.

(9) Net income per common share

Net income per common share has been calculated on the basis of net income for the year less preferred dividends, divided by the monthly weighted average number of common shares outstanding during the year.

Fully diluted net income per common share assumes that all outstanding warrants and options had been exercised at the beginning of the year and includes an allowance for imputed interest derived from the investment of the funds which would have been received.

(10) Segmented information

In accordance with statutory requirements, the Board of Directors has determined that the Corporation and its subsidiaries are engaged in one line of business involving basic steel production and fabrication.

Export sales for 1981 totalled $163,329,000 ($201,821,000 in 1980).

(11) Related party transactions

Upper Lakes Shipping Ltd. is a wholly-owned subsidiary of Leitch Transport Ltd which company beneficially owns approximately 11% of the outstanding common shares of the Corporation. Mr. J. D. Leitch is a director of Dofasco. He is also an officer, director and (indirectly through a holding company) a shareholder of Leitch Transport Ltd and an officer and director of Upper Lakes Shipping Ltd.

During 1981 the Corporation was required by contract to offer to Upper Lakes Shipping Ltd. its entire requirements for water transport of the Corporation's bulk raw materials to Hamilton and Upper Lakes Shipping Ltd. was required to provide such transport. Freight charges, negotiated annually, amounted to $21 million in 1981 (1980 – $22 million).

At December 31, 1981 the Corporation owed Upper Lakes Shipping Ltd. $2,103,000 (1980 – $282,000).

(12) Employees' profit sharing on steelmaking operations

The Corporation allocates 11% of steelmaking profits before income taxes to the Dofasco Employees' Savings and Profit Sharing Fund and the Dofasco Employees' Deferred Profit Sharing Plan.

(13) Retirement plans

The Corporation funds retirement plans covering substantially all of the employees. Pension costs charged against income during the year, based on amounts estimated by independent actuaries, include amounts for current and past service. The estimated unfunded past service cost of $51,000,000 at December 31, 1981 will be amortized over periods not exceeding 15 years.

(14) Commitments

The estimated amount required to complete authorized capital projects, including an allowance for the effect of continuing inflation, is $402,000,000 at December 31, 1981.

(15) Income taxes

During 1981, the Corporation received Federal income tax reassessments for the 1976 and 1977 taxation years. These reassessments disallow a portion of the deduction claimed by the Corporation with respect to earned depletion and the 3% inventory allowance. Management is of the opinion that the Corporation's treatment of these matters is appropriate in these and subsequent years; therefore, notices of objection have been filed. In the event that the Corporation is not successful in its objections, income taxes for the years 1976 to 1979 would increase by approximately $17.5 million in total, and for 1980 and 1981, approximately $3 million and $2 million respectively.

Auditors' report

To the Shareholders of
Dofasco Inc.:

We have examined the consolidated statement of financial position of Dofasco Inc. as at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON GORDON
Chartered Accountants

Hamilton, Canada
January 29, 1982.

Ten year summary of production and financial data

	1981	1980	1979
Statement of income data (in thousands of dollars)			
Sales	**$1,767,509**	$1,541,914	$1,435,05
Cost of sales (excluding the following items)	**$1,407,802**	$1,257,306	$1,117,38
Depreciation and amortization	**$ 74,003**	$ 65,634	$ 64,87
Employees' profit sharing	**$ 22,884**	$ 14,705	$ 20,47
Interest on long term debt	**$ 33,721**	$ 32,339	$ 32,67
Income from investments	**$ 39,675**	$ 21,914	$ 19,60
Income before income taxes	**$ 268,774**	$ 193,844	$ 219,24
Income taxes	**$ 99,500**	$ 71,600	$ 82,30
Net income for year	**$ 169,274**	$ 122,244	$ 136,94
Net income available for common shareholders†	**$ 147,070**	$ 107,304	$ 125,19
Financial position data (in thousands of dollars)			
Working capital‡	**$ 567,717**	$ 600,070	$ 526,46
Fixed assets – land, buildings and equipment, at cost	**$1,878,404**	$1,647,826	$1,466,91
– accumulated depreciation	**$ 701,113**	$ 645,776	$ 584,94
Total other assets	**$ 13,271**	$ 9,034	$ 8,81
Capital employed‡	**$1,758,279**	$1,611,154	$1,417,24
Long term liabilities‡	**$ 372,760**	$ 371,291	$ 333,86
Income tax allocations relating to future years‡	**$ 308,800**	$ 271,200	$ 246,70
Total shareholders' equity	**$1,076,719**	$ 968,663	$ 836,67
Statistical data			
Production of ingots and castings – net tons*	**4,258**	3,681	4,06
Shipments of flat rolled products, semi-finished steel and steel castings – net tons*◇	**3,223**	2,914	3,09
Net income per common share†	**$ 9.08**	$ 6.67	$ 7.8
Net income – percent of sales†	**8.3%**	7.0%	8.7
Net income after adding back interest on long term debt (after taxes) – percent of average capital employed	**11.3%**	9.5%	11.6
Net income – percent of average common shareholders' equity†	**18.5%**	15.2%	20.2
Net worth per common share	**$ 52.35**	$ 45.85	$ 41.8
Dividends declared – per common share	**$ 2.50**	$ 2.42½	$ 2.
– per Class A preferred share	**$ 4.75**	$ 4.75	$ 4.
– per Class B, Series 1, 2 and 3 preferred share	**$ 2.629**	$ 2.108	$ 1.80
– per Class B, $2.35 preferred share	**$ 2.35**	$ .58¾	—
Income reinvested in the business*	**$ 106,571**	$ 68,283	$ 91,81
Capital expenditures* – manufacturing	**$ 238,259**	$ 176,848	$ 61,25
– mines and quarries	**$ 10,985**	$ 8,867	$ 10,73
Total dividends declared* – preferred	**$ 22,204**	$ 14,940	$ 11,75
– common	**$ 40,499**	$ 39,021	$ 33,37
Number of holders of common shares	**13,451**	13,719	14,14
Percentage of common shares held in Canada	**97.0%**	96.6%	97.2
Average number of employees	**13,700**	14,100	13,70

*in thousands
†after preferred dividends
‡restated to conform with the change, in 1981, in the method of accounting for costs of relining blast furnaces
◇restated to include shipments of semi-finished steel

1978	1977	1976	1975	1974	1973	1972
$1,120,383	$ 919,036	$ 904,958	$ 738,083	$ 681,636	$ 519,558	$ 443,775
$ 892,125	$ 752,151	$ 739,144	$ 601,301	$ 524,741	$ 382,813	$ 333,585
$ 53,370	$ 47,063	$ 42,108	$ 38,064	$ 35,119	$ 35,155	$ 33,077
$ 13,189	$ 8,529	$ 8,652	$ 6,436	$ 11,107	$ 10,033	$ 6,774
$ 35,195	$ 34,434	$ 23,736	$ 15,767	$ 9,678	$ 7,580	$ 9,053
$ 12,418	$ 12,759	$ 4,981	$ 3,958	$ 6,811	$ 1,264	$ 537
$ 138,922	$ 89,618	$ 96,299	$ 80,473	$ 107,802	$ 85,241	$ 61,823
$ 44,000	$ 21,100	$ 29,600	$ 25,000	$ 37,400	$ 32,700	$ 25,700
$ 94,922	$ 68,518	$ 66,699	$ 55,473	$ 70,402	$ 52,541	$ 36,123
$ 85,437	$ 63,103	$ 65,728	$ 54,493	$ 69,415	$ 51,530	$ 35,083
$ 429,983	$ 430,800	$ 260,666	$ 221,078	$ 167,258	$ 115,675	$ 108,641
$1,399,767	$1,269,245	$1,112,987	$1,001,298	$ 867,192	$ 780,701	$ 736,905
$ 524,911	$ 475,144	$ 431,896	$ 392,045	$ 357,014	$ 330,635	$ 296,625
$ 10,004	$ 10,937	$ 12,185	$ 11,342	$ 11,259	$ 10,939	$ 11,100
$1,314,843	$1,235,838	$ 953,942	$ 841,673	$ 688,695	$ 576,680	$ 560,021
$ 368,996	$ 379,277	$ 297,665	$ 242,598	$ 140,979	$ 93,066	$ 120,845
$ 206,500	$ 177,700	$ 165,300	$ 150,600	$ 131,000	$ 116,400	$ 110,300
$ 739,347	$ 678,861	$ 490,977	$ 448,475	$ 416,716	$ 367,214	$ 328,876
3,588	3,333	3,335	3,053	3,060	3,036	2,773
2,830	2,596	2,652	2,348	2,475	2,370	2,175
$ 5.42	$ 4.01	$ 4.17	$ 3.46	$ 4.41	$ 3.29	$ 2.25
7.6%	6.9%	7.3%	7.4%	10.2%	9.9%	7.9%
9.4%	8.7%	9.3%	8.7%	12.2%	10.2%	7.5%
15.8%	12.9%	14.6%	13.2%	18.7%	15.8%	11.8%
$ 36.12	$ 32.32	$ 29.89	$ 27.17	$ 25.15	$ 21.99	$ 19.69
$ 1.65¾	$ 1.55	$ 1.46¾	$ 1.44	$ 1.26	$ .97½	$ .90
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ 1.427	$ .744	—	—	—	—	—
—	—	—	—	—	—	—
$ 59,317	$ 38,116	$ 42,615	$ 31,817	$ 49,577	$ 36,264	$ 21,057
$ 128,205	$ 152,168	$ 77,411	$ 100,722	$ 85,133	$ 37,879	$ 31,799
$ 5,920	$ 7,906	$ 36,534	$ 36,419	$ 10,114	$ 3,360	$ 3,080
$ 9,485	$ 5,415	$ 971	$ 980	$ 987	$ 1,011	$ 1,040
$ 26,120	$ 24,414	$ 23,113	$ 22,676	$ 19,838	$ 15,266	$ 14,026
14,674	15,196	15,298	15,932	16,110	16,272	16,629
97.1%	97.1%	97.1%	97.4%	96.9%	96.4%	96.2%
12,300	11,300	11,500	11,700	11,500	10,600	9,700

Subsidiaries	Percentage Ownership
National Steel Car Limited, Hamilton, Ontario*	
A manufacturer of railway rolling stock, industrial and mining specialty rail cars and car parts.	
R. W. Cooke – President	100.0%
Prudential Steel Ltd., Calgary, Alberta*	
A manufacturer of electric resistance weld pipe in the 2″ to 10″ range; tubing and casing for the oil and gas industry; hollow structural steel for agricultural and industrial uses. Its subsidiary Cardinal Tube Coatings Ltd. applies corrosion protection wrapping to oil and gas line pipe.	
J. S. Badyk – President	100.0%
BeachviLime Limited, Beachville, Ontario*	
A quarry and processing operation supplying lime and limestone products. Its wholly-owned subsidiary Guelph DoLime Limited produces dolomitic lime.	
D. A. Lindsey – President	100.0%

Iron Ore Mining and Pelletizing

Adams Mine, Kirkland Lake, Ontario*	
Cliffs of Canada, Ltd. – Manager	100.0%
Sherman Mine, Temagami, Ontario*	
Cliffs of Canada, Ltd. – Manager	90.0%
Wabush Mines*, comprising:	
Scully Mine, Wabush, Newfoundland	
Pelletizing plant, Pointe Noire, Quebec	
Pickands Mather & Co. – Manager	16.4%
Eveleth Expansion Company, Minnesota*	
Oglebay Norton Company – Manager	16.0%

Other Investments

Baycoat Limited, Hamilton, Ontario*	50.0%
Itmann Coal Company, West Virginia†	9.0%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%
Aberford Resources Limited, Alberta†	10.1%

Transfer Agents and Registrars

National Trust Company, Limited –
Toronto, Montreal, Vancouver, Winnipeg, Calgary
Canada Permanent Trust Company – Halifax
The Bank of Nova Scotia Trust Company of New York – New York

*Ownership interest consolidated in Financial Statements.

†Included under "Investments" in Financial Statements.

Directors

George H. Blumenauer
Chairman and Chief Executive Officer
Otis Elevator Company Limited
Hamilton

R. Ross Craig
Executive Vice President – Commercial

Roger G. Doe, Q.C.
Partner, Campbell, Godfrey & Lewtas
Toronto

Robert C. Dowsett
President, Crown Life Insurance
Company, Toronto

Dr. John R. Evans
Director – Population, Health and
Nutrition Department, World Bank
(International Bank for Reconstruction
and Development)
Washington, D.C., U.S.A.

Howard J. Lang
Chairman of the Executive
Committee of the Board,
Canron Inc., Toronto

John D. Leitch
President, Upper Lakes Shipping Ltd.,
Toronto

Frank H. Logan
Vice-Chairman, Canadian Imperial
Bank of Commerce, Calgary

W. Harold Rea
Vice President, The Mutual Life
Assurance Company of Canada,
Toronto

John G. Sheppard
Executive Vice President – Financial

Frank H. Sherman
President and Chief Executive Officer

Officers

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President – Commercial

John G. Sheppard
Executive Vice President – Financial

David A. Lindsey
Vice President – Raw Materials,
Purchases and Traffic

F. John McMulkin
Vice President – Research

David H. Samson
Vice President – Engineering

Paul J. Phoenix
Vice President – Planning

William D. Simon
Vice President – Sales

Thomas Van Zuiden
Vice President – Finance

William L. Wallace
Vice President – Operations

H. Graham Wilson
Vice President and Secretary

William P. Tinsley
Vice President – Personnel

Bill P. Solski
Treasurer

Robert W. Grunow
Comptroller

Robert J. Swenor
Assistant Secretary

L. Allen Root
Assistant Treasurer

Robert E. Wodehouse
Assistant to the Executive
Vice President – Financial

R. Eric Moore
Assistant Comptroller

John J. Fitzpatrick
Assistant Comptroller

Our product is steel. Our strength is people.

DOFASCO